The History, Organization, and Influence of the Independent Treasury of the United States. By DAVID KINLEY. Pp. viii and 329; Number 1. Library of Economics and Politics. Richard T. Ely, Editor. New York: Thomas Y. Crowell & Co. 1892.

Professor Kinley's book discusses a very live question at a most opportune time. In Congress, among business men, and in academic circles money problems have been uppermost in men's minds throughout this year; and every one is interested in the attempt of economist or technical man to point out the way in which the United States may establish a more perfect fiscal agent than the present independent treasury, and secure a sound and elastic currency.

According to his original plan Professor Kinley purposed only to discuss the influence of the independent treasury on business, but he wisely decided to make this essay chapter six in a larger treatment, whose earlier chapters treat of the old Bank of the United States, the State banks as depositories, the development of the independent treasury, its organization and work, and its management of loans. Though these five chapters make little new contribution to the treatment of the subjects discussed, they present a good deal of desirable information in a useful form, and give greater completeness to Professor Kinley's work as a whole. The discussion of the influence of the independent treasury on business is supplemented by a study of the relation of the independent treasury to crises, and the last fifty pages of the body of the book are devoted to proposals for the replacement of the independent treasury by the reorganization of our national banking system. The appendices to the work include a good deal of useful material, among other things the text of the sub-treasury law.

It is not surprising that Professor Kinley should find that the treasury, in taking varying sums of money from circulation without relation to the needs of trade, exercises an injurious influence on business. Although "the evils which the sub-treasury might naturally be expected to produce have been largely neutralized by a series of lucky accidents," still "some method of keeping the public money should . . . . be sought which will do away with these evils." This, of course, involves the substitution of some other agent than the independent treasury for conducting the fiscal operations of the government. "This feature of temporary withdrawals of money is inherent in the 'independent' system of government management of its own receipts."

The independent treasury, according to the author, can exercise a beneficial influence upon a crisis only during the early stages. "In the later stages of such an occurrence its influence is evil to a greater or less degree, according as its receipts happen to exceed or to be less than

its disbursements." If the stringency is caused by the increased demands of business, the absorptions of the treasury make the situation worse, though in the later stages of such a stringency the disbursements by the treasury may have a good effect if they are made before public confidence is too much shaken. "The coincidence of a particular phase, or stage, of the action of the sub-treasury with a particular phase, or stage, of the progress of a crisis is necessary in order that the influence of the sub-treasury may be beneficial. But such a coincidence is purely fortuitous, and this fact deprives the system of all value as a scientific mode of relief in crises." (p. 215.) Furthermore, the relief afforded in crises has been made possible by the existence of a public debt and a surplus revenue. It is our policy to extinguish the debt, and we ought to discontinue the policy of surplus financiering.

These chapters on the relation of the independent treasury to business and to crises are most interesting reading in view of the events of this year. Though the book was written in 1892, the author clearly foretold the results that must follow should conditions exist such as those which have been experienced this year. The events that have actually come to pass tally exactly with the results that were outlined. (pp. 144–145.)

The reorganization of the national banking system, by which Professor Kinley proposes to replace the independent treasury, assumes that the government may safely accept as security for government deposits and for bank note circulation such railway and municipal bonds as Congressman Michael D. Harter has advocated.* The plan is to make the national banks the fiscal agent of the government, they are to handle the receipts and make the payments. A clearing house in each of the four or five most important cities in different parts of the country is to be the agent, with which the government shall have direct dealing; the country is to be divided into four or five departments, each having one of these clearing houses at the head of government's banking business in the department; and every national bank is to become a member of the clearing-house in its department. All the funds are to be deposited—in accordance with several provisions to secure their safety—except the $100,000,000 "greenback reserve" and the gold and silver bullion by which the coin and bullion certificates are secured. In case the banks have a surplus of earnings above [six]† per cent the government is to receive a pro rata part of the surplus.

To secure elasticity of the currency, the plan provides that under normal conditions the banks may issue notes to the par value of bonds

* For the text of the bill introduced by Mr. Harter December 7, 1892, see the ANNALS, vol. iii, pp. 566-569. March, 1893.

† The brackets indicate that the amounts suggested are tentative.

or gold deposited, but that in time of a crisis each bank may expand its issues [twenty-five] per cent above the par value of the deposited security; but only under the following conditions: the rate on call-loans in New York must be [eight] per cent, all net profits above [one] per cent due to the extra issue of notes must go to the government, no bank shall discount below [eight] per cent while the extra issues are outstanding, at the end of a month the Secretary of the Treasury may, and at the expiration of two months' time, must, require the banks to cover the extra issues with deposits of gold. The plan requires each bank to send all notes other than its own to the clearing-house for redemption, and to maintain a reserve of [twenty] per cent of deposits, excepting when discounts on call-loans rise to [ten] per cent in the clearing house cities; in which case, the reserve may fall to [fifteen] per cent of total deposits. The issue of clearing-house loan certificates during a crisis is permitted by the plan, under the conditions by which they are now regulated in New York.

Professor Kinley thus provides for a national bank currency; and declares in favor of the retirement of the existing United States notes (the greenbacks). His position is rightly taken; our fiat money will always be a disturbing element of our monetary system until it is withdrawn, and we decide once for all never to issue any more. Professor Kinley thinks national bank issues would meet all demands for money, but has no objections to allowing State banks again to become banks of issue. Here one may well take issue with him, the practical difficulties in the way of securing a thoroughly sound State bank currency seem to me insuperable. Even the most conspicuous advocate of State bank issues, Congressman Harter, admits "the undoubted fact that national banks would enjoy a higher general credit than State banks." If this be so, why advocate State bank currency? The institutions which issue money ought to be the ones having the higher general credit. A national currency is generally conceded to be preferable to that supplied by the States, provided the former can be made of sufficient volume and elasticity. The experience of other nations shows us that a national currency having these qualities is possible of attainment.

The problems connected with the readjustment of our treasury and currency are intricate and their satisfactory solution must come through the combined labors of economists and technical specialists. Professor Kinley has treated the subject from the economist's standpoint, and takes to the work a mind well versed in economic literature. His book well supplements the treatises and reports of money specialists whose knowledge is chiefly technical.

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